




STATE OF DELAWARE  
**THE PUBLIC SERVICE COMMISSION**

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July 23, 2014

TO: The Chair and Members of the Commission

FROM: John Farber, Public Utilities Analyst 

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT  
COMPANY FOR A CHANGE TO ITS TRANSMISSION SERVICE CHARGE FOR  
ITS ELECTRIC SUPPLY AND TRANSMISSION CUSTOMERS  
(FILED JUNE 12, 2014) PSC DOCKET No. 14-208

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**Summary**

On June 13, 2014, Delmarva Power & Light Company ("DPL" or "Company") filed its application to increase its Transmission Service Charge for both its Standard Offer Service ("SOS") Fixed Price Service and SOS Hourly Priced Service from \$1.998546 per kW-month to \$2.545253 per kW-month (an increase of approximately 27%) and to amend Tariff Leaf Nos. 111 and 114 to reflect the increase (the "Application"). The Company requested that the revised Transmission Service Charge be effective with usage on and after August 12, 2014. The proposed Transmission Service Charge was based on the Company's 2014 Annual Update to the Network Integration Transmission Service Rate for the Delmarva Transmission Service Zone ("Network Rate") in an informational filing with the Federal Energy Regulatory Commission ("FERC") based on 2013 FERC Form 1 data.<sup>1</sup> The formula rate for the informational filing was the result of a settlement agreement approved by FERC in Docket No. ER05-515.<sup>2</sup> According to DPL, the Application implements the procedure for establishing retail transmission rates set forth in Section II F of the Settlement Agreement approved in Order No. 6746 (October, 11, 2005) in PSC Docket No. 04-391. That settlement established a pass-through mechanism that permits DPL to establish transmission rates for retail customers that mirror the transmission rates that PJM Interconnection, L.L.C. ("PJM") charges DPL under FERC requirements.

Generally, a 27% increase in a rate charged to ratepayers would result in a Staff recommendation to suspend the proposed rate increase or approve the proposed rate on a temporary basis subject to Staff's review of the filing. In this instance, however, the proposed Transmission Service Charge is based on the update to the Network Rate in compliance with Attachment H-3E, Formula Rate Implementation Protocols approved by FERC in Docket No. ER05-515 ("Protocols"), and as filed May 16, 2014, in FERC Docket No. ER09-1158. As discussed further below, subject to the

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<sup>1</sup>FERC Docket No. ER09-1158, May 16, 2014. The FERC issued a Letter Order dated February 17, 2010, directing, among other things, the Company to file Annual Updates in the forthcoming years, for informational purposes only, in Docket No. ER09-1158.

<sup>2</sup> Order Approving Uncontested Settlement, issued April 19, 2006, FERC Docket No. ER05-515.

discovery and challenge procedures specified in the Protocols, Staff recommends that the Commission approve as final the proposed tariff revisions pertaining to Transmission Service Charges for its SOS Fixed Price and Hourly Priced Service offerings and conclude this docket.

### **Analysis**

A preliminary review of the informational filing at the FERC indicates that some portion of the increase is due to the settlement approved for recovery of the MAPP costs in FERC Docket No. ER13-607.<sup>3</sup> As discussed further below, however, cost increases were observed in other categories as well. Issues concerning the appropriate costs to be recovered in the Network Rate will be pursued subject to the Protocols. As Staff described in previous reviews of the annual update to the Network Rate, information requests (discovery) and any subsequent challenge regarding the review of the costs included in the FERC-approved formula rate are subject to the Protocols.

Previously, the Company held that the Protocols regarding discovery provide that they “shall be limited to what is necessary to determine if DPL has properly applied the Formula Rate and the [Protocol] procedures.”<sup>4</sup> Pursuant to the Protocols, the annual update is to be “based upon Delmarva’s FERC Form No. 1 data ... and ... be based upon the books and records of Delmarva consistent with FERC accounting policies.”<sup>5</sup> Essentially, if the formula rate is in compliance with the Protocols, then according to the Company a challenge to the formula rate would not be successful.

Recently, however, on October 17, 2013 the FERC issued its order addressing the Formal Challenges filed by the Delaware Municipal Electric Corporation, Inc. (DEMEC) and otherwise set the 2011 Annual Update and 2012 Annual Update for hearing and settlement judge procedures<sup>6</sup> (“October Order”). Staff would note that settlement discussions have been conducted to resolve the DEMEC challenges and, pursuant to the Protocols, any adjustment (if necessary) would be reflected in the next annual update filed at FERC. In the October Order, the FERC provided a different interpretation of the Protocols as follows:

**We disagree with DP&L’s contentions that the Protocols do not permit prudence challenges and that the Formula Rate inquiry is limited to whether costs were booked to the correct Account.<sup>7</sup>**

**We also reject DP&L’s assertion that challenges to whether DP&L has reasonably applied the formula rate by including certain costs, constitute challenges to the formula rate itself, and are prohibited as violations of the formula rate and the filed rate doctrine. As DP&L acknowledges, the formula is the filed rate. However, as discussed above, the inputs are not part of the rate. And DP&L bears the burden of demonstrating the justness and reasonableness of the charges resulting from application of the formula.<sup>8</sup>**

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<sup>3</sup> Order Approving Settlement (Issued February 28, 2014)

[http://elibrary.ferc.gov/idmws/file\\_list.asp?document\\_id=14190690](http://elibrary.ferc.gov/idmws/file_list.asp?document_id=14190690)

<sup>4</sup> Attachment H-3E, Formula Rate Implementation Protocols, Section 2 b.

<sup>5</sup> *Id.*, Section 1f.

<sup>6</sup> [http://elibrary.ferc.gov/idmws/file\\_list.asp?document\\_id=14155066](http://elibrary.ferc.gov/idmws/file_list.asp?document_id=14155066)

<sup>7</sup> *Id.*, ¶ 20.

<sup>8</sup> *Id.*, ¶ 23.

Staff's preliminary review of the formula rate determined that the Network Rate underlying the Transmission Service Charge (before adjustments for Transmission Enhancement Charges and revenue credits) increased approximately 29%. The increase in the Network Rate is mainly attributable to a 2.3% decrease in the peak load (denominator) used to recover costs and a cost increase of approximately 26% in the zonal revenue requirement (numerator). The main increases to the zonal revenue requirement are from a 15.4% increase in total transmission plant, as well as increases in transmission wages and salaries allocator of 17.6% (even though total wage expense decreased -7.62%). It should be noted that the zonal revenue requirement now includes abandonment costs for the Mid-Atlantic Power Pathway ("MAPP") Project pursuant to a settlement achieved in FERC Docket No. ER13-607. The MAPP Project was cancelled by PJM on August 24, 2012. The settlement amount for the MAPP abandonment cost to be ultimately recovered is \$80.5 million, versus the filed amount of \$101.5 million, in three annual installments of \$26,833,333 (with a "catch up" adjustment of \$4,357,272 due to the under recovery of the settlement amount in the previous year). As shown in Attachment C of the filing in the instant docket, the Delmarva Zone Share of these MAPP costs is 2.49%.

Upon request, the Company provided customer bill impacts of the proposed Transmission Service Charge. The average annual increase due to the proposed Transmission Service Charge ranged from .34% to 1.54% for the Residential customers and .92% to 1.68% for the Residential Heating customers.<sup>9</sup> The increase for the "typical" residential customer was approximately 1.44%. For the non-residential customers, the increases ranged from a nominal 0% to the largest increase of 1.0% to the Small General Service – Secondary customers.

### **Staff Recommendation**

Given the challenge procedures provided in the formula rate Protocols as discussed above, Staff respectfully recommends that the Commission approve as final the proposed Transmission Service Charge and the proposed Tariff Leaf Nos. 111 and 114 pertaining to Transmission Service Charges for its SOS Fixed Price and Hourly Priced Service offerings as filed on June 13, 2014. The effective date for the revised tariff leafs should be for usage on and after August 12, 2014, as requested by the Company.

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<sup>9</sup> Staff would note that the proposed Transmission Service Charge is approximately 7% of the "typical" residential customer's total bill. The existing Transmission Service Charge was approximately 5.7% of the "typical" residential customer's total bill.